

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY )  
THE OIL CONSERVATION DIVISION FOR THE )  
PURPOSE OF CONSIDERING: )

) CASE NO. 13,890

APPLICATION OF ENERGEN RESOURCES )  
CORPORATION FOR COMPULSORY POOLING )  
AND AN EXCEPTION TO RULE 2 OF THE )  
SPECIAL POOL RULES FOR THE WEST )  
LINDRITH GALLUP-DAKOTA OIL POOL FOR )  
DESIGNATION OF A NONSTANDARD SPACING )  
UNIT, RIO ARriba COUNTY, NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Jr., Hearing Examiner

March 15th, 2007

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Jr., Hearing Examiner, on Thursday, March 15th, 2007, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

STEVEN T. BRENNER, CCR  
(505) 989-9317

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## I N D E X

March 15th, 2007  
 Examiner Hearing  
 CASE NO. 13,890

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\* \* \*

## A P P E A R A N C E S

## FOR THE DIVISION:

DAVID K. BROOKS, JR.  
Assistant General Counsel  
Energy, Minerals and Natural Resources Department  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

## FOR THE APPLICANT:

MILLER STRATVERT, P.A.  
150 Washington  
Suite 300  
Santa Fe, New Mexico 87501  
By: J. SCOTT HALL

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 9:18 a.m.:

3 EXAMINER JONES: Okay, we've got another one  
4 here. Let's call Case Number 13,890, in the matter of the  
5 Application of Energen -- Wait a minute, that's the one I  
6 just called.

7 Case Number 13,891, readvertised Application of  
8 Petrohawk Energy Corporation for authorization to  
9 reactivate a waterflood project, Lea County, New Mexico.

10 MR. HALL: Mr. Examiner, I believe the next case  
11 should be 13,890, the Energen case.

12 EXAMINER JONES: Oh, I wrote this stuff in the  
13 wrong spot. I'm sorry. This was Case 13,890. Let's call  
14 that case. In the matter of the Application of Energen  
15 Resources Corporation for compulsory pooling and an  
16 exception to Rule 2 of the special pool rules for the West  
17 Lindrith Gallup-Dakota Oil Pool for designation of a  
18 nonstandard spacing unit, Rio Arriba County, New Mexico.

19 Call for appearances.

20 MR. HALL: Mr. Examiner, Scott Hall, Miller  
21 Stratvert law firm, Santa Fe, on behalf of the Applicant  
22 Energen Resources Corporation. I have one witness this  
23 morning.

24 EXAMINER JONES: Any other appearances?  
25 Will the witness please stand to be sworn?

1 Q. And have you reviewed the pool rules for that  
2 particular pool?

3 A. Yes, I have.

4 Q. And what spacing units do those pool rule  
5 specify?

6 A. That particular pool specifies 160-acre spacing.

7 Q. All right. If we refer to Exhibit Number 1,  
8 could you identify that, please, sir?

9 A. This is a survey plat showing the location of the  
10 wellbore itself and the actual acreage located within the  
11 northwest quarter of Section 1, which consists of 216.76  
12 acres. With our 130-percent allowable on a 160 spacing  
13 unit, that would be 208 acres, therefore we are exceeding  
14 that by 8.76 acres.

15 Q. Okay, so you're exceeding the acreage  
16 tolerance --

17 A. Yes.

18 Q. -- for a 160-acre unit?

19 A. That's correct.

20 Q. If you'd look at Exhibit 1, there's reference on  
21 the graphic portion to two surveys. Do you know whether  
22 this section itself was surveyed?

23 A. I don't believe the government has officially  
24 surveyed this, and these numbers are taken off an  
25 independent survey.

1 Q. All right, so this section shown on Exhibit 1,  
2 it's a projected survey, is that correct?

3 A. That is correct.

4 Q. And these survey lines have been accepted by the  
5 regulatory agencies and the BIA --

6 A. That is correct.

7 Q. -- for this acreage; is that right?

8 A. Uh-huh.

9 Q. And by the way, is this a Jicarilla lease?

10 A. Yes, it is.

11 Q. Let's look at Exhibit 2, Mr. Poage. Would you  
12 identify that, please?

13 A. This is a plat showing the offset operators to  
14 the northwest quarter of Section 1, the 960-acre -- or the  
15 160-acre spacing units surrounding the northwest quarter of  
16 Section 1. There's only one offset operator other than  
17 Energen Resources, and that's Enervest Operating.

18 Q. Did you prepare Exhibit Number 2 to demonstrate  
19 the offset operators who would be receiving notice of the  
20 nonstandard proration unit Application?

21 A. Yes, I did.

22 Q. Let's look at Exhibit Number 3. Would you  
23 identify that, please?

24 A. This exhibit shows the ownership of the proposed  
25 well. Energen would own 50 percent under this particular

1 lease. It's all under one lease.

2 El Pamco, Inc., owns 25-percent ownership and has  
3 consented to the drilling of this well, and we have an  
4 agreement in place for that.

5 The National Energy Group is the party that we  
6 are unable to get an agreement with, and the reasoning for  
7 that is, the title for this ownership is held in the name  
8 of Edwards and Leach. They were unlocatable. We did some  
9 research as to different mergers that Edwards and Leach  
10 went through, ended up in the firm of National Energy  
11 Group, Inc., out of Dallas. I have had several discussions  
12 with their vice president of land, and they have agreed  
13 that they have succeeded to the interests of Edwards and  
14 Leach.

15 However, through the various mergers they were  
16 not aware that they owned this one property in the State of  
17 New Mexico, and therefore none of the assignments have ever  
18 been done from Edwards and Leach through various mergers  
19 into National Energy Group. Thus, National Energy has no  
20 party who can sign on behalf of the Edwards and Leach  
21 interest because they never transferred it, and it's still  
22 in Edwards and Leach's name.

23 Q. So the status of record title is Edwards and  
24 Leach, correct?

25 A. That's correct.

1 Q. And did you investigate whether Edwards and Leach  
2 is an active or defunct entity?

3 A. I believe they're defunct.

4 Q. All right, turn to Exhibit Number 4. Is Exhibit  
5 4 a copy of your well proposal to the National Energy  
6 Group?

7 A. Yes, it is.

8 Q. And after you sent this well proposal to them, is  
9 that when you communicated with their representatives to  
10 discuss the Edwards and Leach interest?

11 A. Yes, we talked to them both before and after this  
12 letter was sent.

13 Q. All right, and you transmitted an AFE?

14 A. Yes, I did.

15 Q. All right. Let's look at Exhibit 5. Is that  
16 your AFE?

17 A. This is the AFE for this particular Jicarilla  
18 well. The dryhole costs on this are \$531,184, completed  
19 costs are \$996,137.

20 Q. And based on your experience, what you've seen,  
21 comparable wells in the San Juan Basin, are these costs in  
22 line with what's being charged in them?

23 A. Yes, they are.

24 Q. And is Energen seeking issuance of an order  
25 providing for supervision charges?

1 A. Yes, we are.

2 Q. And if you look back on Exhibit Number 3, are  
3 those requested charges reflected on there?

4 A. Yes, they are. The monthly overhead rates are  
5 \$5000 for drilling and \$570 producing, which are pretty  
6 standard within the San Juan Basin for wells of this depth.

7 Q. All right. Does Energen also seek the imposition  
8 of the statutory risk penalty against the pooled interests?

9 A. Yes, we do.

10 Q. Were Exhibits 1 through 5 prepared by you or at  
11 your direction?

12 A. Yes.

13 MR. HALL: And Mr. Examiner, Exhibit Number 6 is  
14 our notice affidavit.

15 With that, we'd move the admission of Exhibits 1  
16 through 6.

17 EXAMINER JONES: Exhibits 1 through 6 will be  
18 admitted.

19 MR. HALL: That concludes our direct of the  
20 witness.

21 EXAMINATION

22 BY EXAMINER JONES:

23 Q. Okay, this -- at this time, I guess you had --  
24 those special pool rules, Rule 2, is it only one well per  
25 160?

1 A. Yes, sir.

2 Q. One oil well at 7000 feet per 160?

3 A. (Nods)

4 Q. And now you're going to have 217 acres, and --

5 A. That's correct, it's just a large section the way  
6 it surveys out.

7 Q. Wondering if you even thought about asking for  
8 another well at this time, at the same time you're doing  
9 all this. In other words, two wells on 217 acres, two oil  
10 wells. Is there any -- This is going to be just the  
11 Gallup-Dakota, there's no shallower zones that --

12 A. That's all we're looking at right now, is just  
13 Gallup-Dakota, to comply with the diligent development  
14 demand from BLM.

15 EXAMINER JONES: Okay. Okay, that's...

16 EXAMINATION

17 BY MR. BROOKS:

18 Q. Is this oil or gas?

19 A. We think it's going to be both. This is an oily  
20 country, but we feel like we're going to get gas as well.

21 Q. In looking at Exhibit 2, your land -- your  
22 vicinity or ownership plat, it looks like Enervest is all  
23 around you except on the south; is that correct?

24 A. Yes, sir.

25 Q. The southwest quarter, and Energen operates that?

1 A. Yes.

2 Q. Okay. Who are the working interest owners? Are  
3 there any working interest owners in the southwest quarter  
4 that are not in this northwest quarter?

5 A. I believe there is, but I'm not real certain who  
6 they are.

7 Q. Okay.

8 A. I think there's a difference in ownership in the  
9 southwest quarter. I don't think El Pamco and the National  
10 Energy or Edwards and Leach group have interests in the  
11 southwest quarter.

12 Q. But there are working interests other than  
13 Energen?

14 A. Yes, sir.

15 Q. Energen does not have 100 percent in the  
16 southwest quarter --

17 A. That's correct.

18 Q. -- correct?

19 EXAMINER JONES: But they're only doing the north  
20 and east, right?

21 MR. BROOKS: The northwest.

22 EXAMINER JONES: Northwest, I mean.

23 MR. BROOKS: Right. Well, yeah, I think it's  
24 probably not material. What I was thinking about is, the  
25 other working interest owners would be affected persons if

1 that tract is affected and if they were going to go for a  
2 smaller unit --

3 EXAMINER JONES: Oh.

4 MR. BROOKS: -- I would urge that they ought to  
5 have notice. But since it's a larger than standard unit  
6 and they're only asking for one well, I don't believe  
7 they're affected.

8 FURTHER EXAMINATION

9 BY EXAMINER JONES:

10 Q. Okay. When you said oil and  
11 gas --

12 A. We think that the West Lindrith Gallup-Dakota  
13 Pool, from the wells we've looked at in there, produce both  
14 oil and gas.

15 Q. Okay. Is it like an associated pool then?

16 MR. HALL: Mr. Examiner, I have copies of the  
17 pool rules.

18 EXAMINER JONES: Special pool rules.

19 MR. HALL: It's a complicated pool.

20 EXAMINER JONES: Can we have that?

21 MR. HALL: Yes, sir.

22 EXAMINER JONES: Okay, we can read all this stuff  
23 from here.

24 MR. BROOKS: That's all I have.

25 EXAMINER JONES: Okay, that's all I have too.

1 Thanks a lot, Mr. Poage.

2 MR. HALL: Thank you, Mr. Examiner.

3 EXAMINER JONES: With that, we'll take Case  
4 13,890 under advisement, and let's take a 15-minute break.

5 (Thereupon, these proceedings were concluded at  
6 9:32 a.m.)

7 \* \* \*

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13  
14 I do hereby certify that the foregoing is  
15 a complete record of the proceedings in  
16 the Examiner hearing of Case No. \_\_\_\_\_,  
17 heard by me on \_\_\_\_\_, 19\_\_\_\_,  
18 \_\_\_\_\_, Examiner  
19 Oil Conservation Division  
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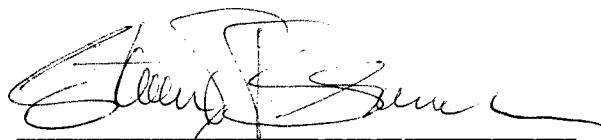
## CERTIFICATE OF REPORTER

STATE OF NEW MEXICO    )  
                              )   ss.  
COUNTY OF SANTA FE    )

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL March 19th, 2007.

  
STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2010